

**Friends of
the Earth**

Briefing

Oil prices, fuel tax and climate change

Introduction

Recent tensions in the Middle East have led to fears about the supply of oil, and the knock on effect this will have on both prices at the petrol pump, and on the wider economy. However, it's also an opportunity to review our addiction to oil, and recognise the need to become more fuel efficient and introduce alternative fuels and technologies. This would aid economic stability, bring consumer benefits and, most of all, help the fight against global climate change (burning oil is a major source of climate-changing carbon dioxide).

Gordon Brown joined politicians across the globe in calling for an increase in oil production, and OPEC has responded with an 8% increase. But this may not have any real impact on fuel prices as other factors are involved, and at best is only a short-term solution. The oil market looks increasingly volatile and fluctuations in supply are likely to occur again. And, of course, this does nothing to address the impact that the oil industry has on climate change.

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The Government is facing threats of further protests about proposed increases in fuel tax, announced in the Budget, which are due to be introduced in September. But failing to implement the rise in fuel tax would remove an incentive for motorists to reduce car use or buy more fuel-efficient vehicles and would therefore further hinder action to reduce climate emissions from transport, currently 4.5 per cent above 1990 levels.

The Chancellor doesn't have to decide now whether or not to abandon his proposed tax rise. However when he makes his decision, this should be based on the need to reduce our dependence on oil and to tackle climate change, rather than in the face of threats of protest.

Reducing our dependency on oil would make the UK less vulnerable to oil insecurity and global price increases. It would also help us meet our targets for tackling climate change and stimulate economic activity in new technologies to aid action on climate change. Friends of the Earth believes that a wholly different approach is needed to wean us off our dependency on fossil fuels and facilitate a switch to a low carbon economy with increased use of biofuels, more efficient vehicle technologies and greater use of public transport, walking and cycling.

Friends of the Earth is calling for action in seven areas to tackle transport oil dependence:

- Legal requirements on the car industry to ensure that new vehicles are significantly more fuel-efficient, so helping consumers cut their impact and costs;
- Financial and legal incentives to increase the production and use of sustainably-produced biofuels (fuels made from renewable sources) in the Energy Bill currently going through Parliament;
- Greater support for public transport, walking and cycling in the forthcoming Spending Review and 10 year transport plan revision due in July;
- Financial incentives to encourage motorists to use public transport, including increases in fuel tax (as proposed by the Chancellor) and the introduction of congestion charging and road pricing;
- High road taxes for the least efficient and most polluting cars to encourage motorists to buy cleaner alternatives in the pre-budget report;
- Greater support for rail freight; and,
- The introduction of demand management measures, including fair taxation, for aviation.

Transport is responsible for 27 per cent of the UK's carbon dioxide emissions, with industry responsible for 38 per cent and the domestic sector 27 per cent¹. The Government has pledged to decrease the UK's emissions of carbon dioxide, the main gas causing climate change, by 20 per cent by 2010. It has also pledged to reduce emissions by 60 per cent from 1990 levels by 2050. Meeting these targets will be practically impossible unless the Government takes decisive action on emissions from transport, alongside tougher action on industrial releases and more ambitious action on renewables and energy efficiency.

Action to reduce oil use is not only desirable from a climate change perspective. High oil prices and volatility are here to stay, not least due to instability in many of the oil-producing nations and surging demand across the world. Failure to reduce oil use will be economically dangerous to the UK.

What should the Government do?

The Government must take action in seven areas if it is to significantly reduce climate change emissions from transport.

1 Ensure that the car industry makes and sells significantly more fuel efficient vehicles

The Government's climate change strategy had expected improved fuel efficiency to reduce emissions from cars by 4mtC (million tonnes of carbon) by 2010 – 22 per cent of the total savings across the economy. However, in March, Transport Minister David Jamieson MP told a Parliamentary inquiry that he now expects improved efficiency to deliver just 2.6mtC by 2010².

Average carbon dioxide emissions from newly registered cars in the UK have fallen during 2003 but at the slowest rate for five years. According to the Society of Motor Manufacturers and Traders, new cars sold in the UK last year emitted an average of 172.8 grams of carbon dioxide per kilometre (g/km). This only represents a nine per cent improvement since 1997³. Motor manufacturers have signed up to voluntary agreements to reduce average emissions from new cars sold across the EU to 140g/km by 2008/09. Achieving the 140g/km target in the UK would require a reduction of 6g/km over each of the next five years, which is three times faster than the improvement since 1995. At the current rate, average emissions will still be above 160g/km by 2008/9.

The voluntary approach is clearly not working and the potential benefits of more fuel efficient vehicles are being thwarted. The European Union is currently considering a longer-term target of 120 g/km by 2012. This target must be put on a legal footing.

2 Introduce incentives to promote biofuels

****Please note that due to further evidence about the damaging effects of biofuels on the environment and communities, and due to the Government and EU's failure to address these issues, Friends of the Earth has updated its position on the use of these fuels. Please visit www.foe.co.uk/campaigns/biodiversity/ for the latest briefing on this issue. ****

Biofuels are renewable alternatives to conventional petrol and diesel. They are produced from crops such as oil seed rape or sugar beet. Biofuels cause lower greenhouse gas emissions because the carbon they emit when burnt is itself taken out of the atmosphere when the plants used to make the biofuels are grown. The use of biofuels offers a significant reduction in CO₂ emissions compared to conventional petrol or diesel.

Like any other crop, biofuels can be produced in a way which does damage to the environment, for example through GM crops. Friends of the Earth strongly supports the use of biofuels as part of a sustainable agricultural economy which protects biodiversity, soil and water and which helps contribute to rural economies. Sustainable agriculture requires different agricultural habits - longer crop rotation periods, less intensive use of land, low chemical inputs – which require more land for the same yield. The development of biofuels must therefore go hand in hand with measures to reduce overall demand for fuel through, for example, improving public transport and significantly increased vehicle fuel-efficiency.

Friends of the Earth supports calls for an amendment to the Energy Bill - currently

progressing through Parliament - to ensure that fuel suppliers source an increasing percentage of their product from renewable sources. We also support further reductions in fuel tax for biofuels to reflect the lower carbon dioxide releases from the fuel - a current reduction of 20p/litre will be introduced in January 2005.

Under the EU Biofuels Directive, the Government must notify the EU Commission, by 1 July 2004, of the volume of biofuel that will be used in the UK by the end of 2005 (and by 2006 the volume that will be used by the end of 2010). "Indicative" targets of 2% for 2005 and 5.75% for 2010 have been given. If these indicative targets cannot be met, the UK must give its reasons to the Commission. Friends of the Earth is pressing for support for the sustainable production of biofuels, the establishment of an effective accreditation system and an assessment of the potential levels of production in a sustainable agricultural system.

3 Provide greater support for public transport, walking and cycling

The Government must give drivers real alternatives to car-use through increased investment in public transport, and making streets safer for cycling and walking, by implementing the manifesto of the Way to Go campaign – an umbrella coalition of groups including Friends of the Earth. The Government is currently reviewing its 10 year plan for transport and is due to announce new policy priorities and spending plans in July for the period to 2017.

The Way to Go campaign, which is supported by a broad coalition of 29 transport, environment and social justice groups, is calling on the Government to increase investment in tried-and tested measures such as bus lanes and safe routes to schools. This would help make our transport system work better for people, for communities and for the environment.

A manifesto of 12 transport priorities has been drawn up by the Way to Go coalition. Funding these progressive measures would cost £10bn in total over 6 years which could be paid for through cuts in road building and the fiscal measures described in this briefing.

The Way to Go coalition's 12 measures are:

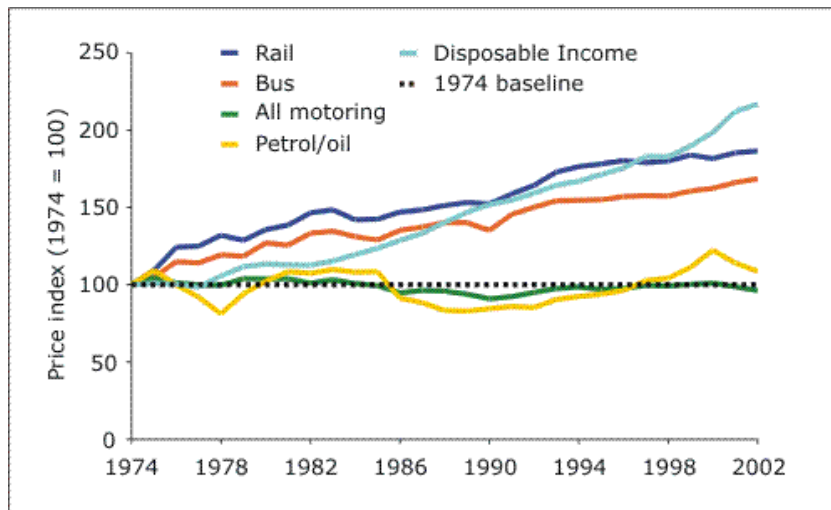
- A cycle-friendly road network and cycle training for all.
- Streets, lanes and paths in good condition and pleasant for walking.
- Networks of bus lanes.
- Safe routes to school.
- Services and facilities close to people so they don't need to drive.
- Lower speed limits: a 20mph default in residential streets.
- Quality standards that bus and rail services must meet.
- A discount nationwide railcard available to all.
- Greater purchase incentives for smaller, cleaner vehicles.
- Increased funding for local public transport, particularly in rural areas.
- Grants for rail-freight projects.
- Pay-as-you-go road user charging.

The Way to Go coalition has shown that these changes could lead to significant reductions in

traffic and help the Government meet social justice and environmental goals⁴.

4 Provide financial incentives to encourage motorists to use public transport, including the introduction of congestion charging and road pricing

Despite the claims of motoring groups, the cost of motoring is falling. According to Government figures⁵ motoring is cheaper now in real terms (allowing for inflation) than 30 years ago. Over the same period, rail fares have risen by over 80% and bus fares by over 70%. Motoring costs have fallen by 4.8% since the current Government came to power in 1997, while rail fares have risen by 3% and bus fares by 8%.



The Government's Commission for Integrated Transport said at the time of the last fuel protests that *"there are clear links between lower petrol prices and greater car use. The 26p a litre cut that fuel protestors say they want would lead to a growth of at least 8% in UK car mileage. And motoring costs are forecast to fall by 20% in real terms over the next 10 years. If instead motoring costs remained constant, congestion could be cut by 6% and CO2 emissions by 3.3%"*⁶.

Friends of the Earth is in favour of gradual increases in fuel tax to keep the cost of motoring constant, as part of a package of other measures. The purpose of these increases is to encourage people to buy more efficient vehicles and to use them more carefully. The revenue raised could be used to fund the measures outlined by the Way to Go coalition (see above), including investment in public transport. This is a progressive green tax as it directly benefits large numbers of people, including the poorest in society many of whom do not have access to cars and who are currently reliant on poor public transport facilities.

Friends of the Earth also supports congestion charging and road pricing as part of a wider policy of traffic reduction. Since the introduction of congestion charging in central London,

there has been a 19 per cent reduction in emissions of carbon dioxide within the congestion charge area, a 30 per cent reduction in congestion and a 38 per cent increase in bus use⁷.

Road charging to reduce congestion and encourage the use of public transport is another important economic tool for reducing climate change releases from transport. As with fuel tax it can be a socially progressive tax if revenues raised are used to fund quality alternatives to the car.

The Government should also investigate the use of measures such as council tax rebates to help those most affected by fuel prices in rural areas.

5 Raise road taxes for the least fuel-efficient cars to encourage motorists to buy cleaner alternatives

The Government has cut road tax (Vehicle Excise Duty) for the most fuel-efficient cars but has taken no action at the other end of the market. Sixty per cent of cars on sale in Britain fall into the £165 top road tax band. As a result, drivers of the most polluting car available in Britain (the Ferrari 456M GTA 2+2) pay the same road tax as the driver of a family car such as the Ford Focus 1.8i estate, although the Ferrari is three times as polluting.

Friends of the Earth believes that a graduated scale of tax bands should be introduced, rising in £50 steps up to £500 for the most polluting cars. Government research shows that this would prompt a third of car buyers to buy a less polluting vehicle⁸. It would also raise approximately £1 billion a year for investment in sustainable transport for wider public benefit and especially for people without access to a car.

6 Provide more support for rail freight

Climate change gas emissions from the freight industry have soared by 59 per cent since 1990⁹. Rail freight produces 80 per cent less carbon dioxide per tonne carried than road freight¹⁰. The Way to Go coalition is urging the Government to invest in key rail infrastructure projects and to reintroduce grants to encourage businesses to switch from road to rail freight which were abandoned in 2003¹¹.

7 Introduce demand management measures for aviation

Emissions of climate change gases from aviation rose by over 85 per cent between 1990 and 2003¹² and could represent 10-12 per cent of total UK emissions by 2020¹³, fuelled by predicted increases in passenger numbers. One reason why this growth is possible is that airlines pay no tax on the fuel they use. The House of Commons Environmental Audit Committee has recently commented that *“if aviation emissions increase on the scale predicted by the DfT, the UK’s 60 per cent carbon emission reduction target which the Government set last year will become meaningless and unachievable”*¹⁴.

Urgent action is needed to introduce demand management measures for aviation. The Government must press for EU and international action both to tackle rising aviation emissions and address tax inequalities. In the short-term, the Chancellor must signal his determination to tackle these problems by raising Air Passenger Duty as a proxy until proper and fair taxation of aviation is agreed at international level.

References

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- 7 Transport for London 'Congestion charging – impacts monitoring second annual report'
- 8 Department for Transport (2004) 'Assessing the impact of graduated Vehicle Excise Duty: Quantitative Report'
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- 10 Figures from Freight on Rail www.freightonrail.org.uk
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